TILBURG ◆ UNIVERSITY

Tilburg University

The argumentational texture of transaction cost economics

Noorderhaven, N.G.

Published in:
Organization Studies

Publication date:
1995

Citation for published version (APA):
Noorderhaven, N. G. (1995). The argumentational texture of transaction cost economics. *Organization Studies*, *16*(4), 605-623.

The Argumentational Texture of Transaction Cost Economics

Niels Noorderhaven*

Niels Noorderhaven
Faculty of Economics and Business Administration, Tilburg University, The Netherlands

Abstract

The *deconstruction* method was used to analyze a seminal text in transaction cost economics, viz., Oliver Williamson's *Economic Institutions of Capitalism.* This deconstructive reading revealed that the assumption of opportunism that gives rise to the problem of economic organization as formulated by Williamson also tends to undermine the proposed solution to this problem. The plausibility of unified governance as a solution to the problem of opportunism in transaction relations with asset specificity is shown to hinge on the temporary deferment of the assumption of opportunism. Thus, transaction cost economics finds itself in an impasse of thought: actors have to be assumed to be both opportunistic *and* not-opportunistic if the logic of the theory is to be maintained.

Descriptors: transaction cost economics, deconstruction, opportunism

Introduction

Transaction cost economics (TCE), largely developed by Oliver Williamson (Williamson 1975, 1979, 1985, 1991), purports to answer questions central to organization theory, viz., questions pertaining to the boundaries of organizations, to the internal structure of organizations, and to relationships between organizations. TCE has also stimulated a considerable amount of empirical research (for an overview, see Joskow 1988; Noorderhaven 1994a). Furthermore, Williamson explicitly aspires to build a bridge between economic and behavioural approaches to organizations (Williamson 1985, 1988a, 1988b, 1991). It is therefore not surprising that the rise of TCE has led to lively debates between its proponents and those who are sceptical of this new paradigm (see, e.g. Barney 1990; Donaldson 1990a, 1990b; Perrow 1981; Williamson and Ouchi 1981a, 1981b).

One aspect of TCE that has met repeated criticism from the side of behavioural organization theory is its narrow view of human motivation, capsulized in the assumption of opportunism (Donaldson 1990a, 1990b; Griesinger 1990; Perrow 1986: Chap. 7). The response of proponents of TCE has typically been to admit that this assumption is rather extreme, but that it should nevertheless be maintained, because

Organization Studies
1995, 16/4
605–623

0170–8406/95
0016–0021 $3.00

'[t]his unattractive view of human nature [. . .] generates numerous refutable implications' (Williamson 1985: 392). This has to do with what is seen as one of the strong points of TCE compared with behavioural organization theory: the clarity of its deductive logic and the parsimony of its assumptions (see, e.g., Hesterly et al. 1990). The present article aims to challenge TCE on precisely these strong points. This is done by criticizing TCE from within, drawing on arguments gained from reading a seminal text.

This reading is informed by the deconstruction method, developed by the French philosopher Jacques Derrida (1977, 1978, 1983). A deconstructive reading closely follows the argumentational movements of the text at hand, but it also focuses on the lacunas, inconsistencies and symptomatic abberations to be found in every text (Vasterling 1987). This approach is based on a postmodern philosophy of language. Only some rudiments of this philosophy will be sketched in the article; no attempt will be made to do justice to Derrida's philosophical project as a whole. The goal of this article is to show that transaction cost economics engenders paradoxes or undecidables. Deconstruction is a tool that can help accomplish this task.

This article is part of a growing stream of publications. Several papers on the impact of postmodern philosophy on organizational theorizing have been published (Burrell 1988; Cooper and Burrell 1988; Parker 1992). The deconstruction method has been brought to bear on bureaucracy (Cooper 1989), gender conflict (Martin 1990), leadership (Calás and Smircich 1991), bounded rationality (Mumby and Putnam 1992), and the model of man employed in organization theory (Kilduff 1993). There appear to have been no applications to organizational economics yet.

The composition of this paper is as follows: in the second section, Derrida's philosophy of language is briefly discussed, and the deconstruction method is described. The third section focuses on the most influential text in the field of TCE, viz., Oliver Williamson's *Economic Institutions of Capitalism* (Williamson 1985). The argumentation in this text is deconstructed, and the uncomfortable relationship between 'opportunism' and 'governance' is demonstrated. In the fourth section the analysis is extended to Williamson's more recent work, a comparison with earlier criticisms of TCE is made, and conclusions are drawn.

Deconstruction as a Procedure of Analysis

The deconstruction method is rooted in Saussurian philosophy of language.[1] Saussure pointed at the differential nature of language, i.e., that the capacity of language to transmit meaning rests on the differences between its elements. There is no inherent identity of word and meaning: there is nothing in the sound of the word 'horse' or in the form of the letters making up this word on a page that intrinsically connect it to the concept of a 'solid-hoofed quadruped with long mane and tail, ridden and used as beast of burden'. Words can only be defined by using other words, and there is in the system of language no bench-mark that can be used to assign definite meaning to a single element. As a result, the meaning of a word depends on its context, and one and the same word can signify different things even within a single text. It is therefore impossible to construct a completely coherent and adequate text: 'the exercise of language and thought involves us in intractable paradoxes, which we cannot escape but only repress' (Culler 1979: 156).

Derrida has made it his task to track down these 'intractable paradoxes' in linguistic, philosophical and literary texts. The strategy of deconstruction in this operation is to focus on the binary oppositions authors use to construct their argumentation. Thus Rousseau elaborates on the opposition between nature and culture, the first being pure, uncorrupted and anterior, the second being posterior, a corruption and impurity of nature. Nature pre-existed and formed a plenitude; culture is a parasite that can only flourish on the soil of nature. The opposition, like many in philosophical texts, is clearly hierarchical: 'in classical philosophical opposition we are not dealing with the peaceful coexistence of a *vis à vis*, but rather with a violent hierarchy. One of the two terms governs the other (axiologically, logically, etc.) or has the upper hand' (Derrida, quoted in Gasché 1986: 137).

Derrida substitutes the logic of 'supplementarity' for the logic of opposition and hierarchy. Since no concept can have meaning in and by itself, it derives its meaning from the traces of other concepts from which it can be differentiated. 'Culture' is exterior to 'nature' since nature is defined as an absence of 'culture'; but at the same time 'culture' is interior to 'nature', for without a trace of 'culture' the concept of 'nature' has no meaning. The interiority/exteriority of a supplement is undecidable. More generally, since no concept can bear meaning in isolation, systems of thought that are built on the primacy of a specific concept entail undecidables. Deconstruction focuses on the common ground between the opposites, which makes possible the play in which the identity of both terms is constituted. The aim is to be alive to the impure mixture of terms relating to each other but not reducible to each other. The approach shows how, in a given text, the subordinated term, effaced in the course of the argumentation, is always already inscribed in the privileged term.

To recapitulate: deconstruction proceeds by identifying the central opposition that determines the architecture of a text. Once that opposition is found, the implied hierarchy is reversed in order to put the spotlight on the concept treated as posterior, imperfect, invalid or unwanted in the original text. Finally, the posterior, etc., concept is shown to be indispensable by demonstrating how both terms relate to each other, and how the suppressed term implicitly enters the argumentation at crucial points. The goal of deconstruction is to show that the capacity of the text to persuade hinges on undecidables that remain unnoticed in a sympathetic (or naive) reading. Deconstruction, then, is a procedure for undermining unwarranted reliance on what a text seems to communicate at the surface.[2] We will now use this procedure in a reading of Williamson's *Economic Institutions of Capitalism.*

Deconstructing Transaction Cost Economics

The Economic Institutions of Capitalism

Transaction Cost Economics has found its most complete codification in Williamson's *Economic Institutions of Capitalism* (*E.I.C.*) (Williamson 1985). Later formulations (e.g. Williamson 1988a, 1991, 1992) are geared to specific applications, or elaborate only parts of the argument. Therefore I will initially focus on *E.I.C.* Subsequently, the analysis is extended to more recent work of Williamson.

I will assume that the reader is familiar with the general outlines of TCE. The analysis will focus on the comparative assessment of governance forms in the case of a transaction supported by investments in highly specific assets. Because actors are assumed to be opportunistic, these investments will, in the absence of adequate safeguards, lead to costly haggling and expose the party incurring them to the risk of expropriation. If actors had unbounded rational faculties, a complete contingent contract safeguarding specific investments could be written. However, TCE assumes bounded rationality (Williamson 1985: 45).

The argument in this article concentrates on opportunism and its consequences for the governance of transactions. Actually, both opportunism and bounded rationality are crucial in Williamson's explanation of governance structures. The central question of economic organization is to 'devise contract and governance structures that have the purpose and effect of economizing on bounded rationality while simultaneously safeguarding transactions against the hazards of opportunism' (Williamson 1985: Chapt. 8). The reason why I concentrate on opportunism is that Williamson himself seems to all but dispatch his assumption of bounded rationality when stressing the 'strong commitment to intended rationality' of TCE (Williamson 1985: 387). All the same, another deconstruction of TCE could be performed, parallel to the one in this article but hinging on bounded rationality instead of opportunism.[3]

As a consequence of opportunism (and bounded rationality), market contracting must, in the event of non-trivial asset specificity and uncertainty, give way to other forms of contracting. One possibility is that the parties craft their relationship in such a way that they can make credible commitments while maintaining their independence. The commitment of the less vulnerable party not to indulge in opportunistic behaviour can be made credible if it posts a hostage: something it values will be lost if the relationship is discontinued. In this way, the balance in the transaction relation is restored (Williamson 1985: 169–175). To give an example of a hostage: if a subcontractor of a manufacturing firm invests in a press that is specific to the kind of jobs it performs for that manufacturer, the manufacturer itself may invest in a dye specific to the press used by the subcontractor. A durable bond is thus forged between both parties. Bilateral contracting, effectively isolated from all other potential parties in the market, is substituted for market contracting (Williamson 1585: 75–77).

In other cases (e.g. very high levels of asset specificity, or very strong uncertainty) the exchange of hostages offers insufficient protection against the vagaries of opportunism, and bilateral governance gives way to unified governance. The formerly independent parties are placed under central authority: a hierarchy is substituted for the market (Williamson 1985: 78).

The Logic of Transaction Cost Economics

As expounded in *E.I.C.*, a strong logic rules TCE. On the one hand, transactions can be grouped according to the level of asset specificity associated with them. On the other hand, we see a range of governance structures with differential opportunism curbing properties. These various governance structures are also distinguished by differential costs: real costs are associated with negotiating, writing, monitoring and enforcing contracts. In addition, governance structures that shut out the market suffer from a loss of incentives. At low levels of asset specificity, a specialized governance structure (e.g. a hierarchy) is assumed to be more expensive than a general-purpose governance structure (the market) (Williamson 1985: 91). At high levels of asset specificity, however, market governance breaks down (becomes prohibitively expensive) and gives way to specialized governance structures.

The logic of this argumentation hinges on its methodological individualism. In all cases, economic interaction is conceptualized as transactions between individual actors. In the case of market governance, transactions are bargains made in the marketplace. In the case of unified governance, transactions are assumed to take place if 'a good or service is transferred across a technologically separable interface' (Williamson 1985: 1). This definition enables TCE to put managers within one and the same firm on a par with parties to a market transaction.

The central place of methodological individualism is also reflected in the use of the concepts of 'contract' and 'contracting'. A glance at the subject index of *E.I.C.* shows that these concepts permeate TCE (Williamson 1985: 443–444). In a consistent idiom, Williamson speaks not only of 'market contracting' and 'bilateral contracting', but also of 'unified contracting' (Williamson 1985: 115), but this last phrase reveals a crack in the logic of TCE upon which the chisel of deconstruction can be brought to bear. For surely unification forecloses contracting in the normal sense of the word. Williamson persists in the use of the word 'contracting' to stress that here also, individual opportunistic actors are interacting. At the same time, the word 'unified' also suggests that individuality and opportunism is somehow dissolved. Thus the phrase 'unified contracting' brings to our attention a fundamental question: How can the unified governance structure safeguard transactions if the parties remain relentlessly opportunistic?

TCE has no satisfactory answer to this question (indeed, *cannot* have such an answer). To demonstrate this, the exact position of TCE *vis à vis* opportunism must first be assessed.

Transaction Cost Economics and Opportunism

The assumption of opportunism is one of the distinctive features of TCE. Opportunism refers to 'self-interest seeking with guile' (Williamson 1985: 47). The image of human agents is grim: they are assumed to lie, steal, and cheat, as well as to use more subtle forms of deceit (Williamson 1985: 47). Qualifications of this picture are scattered throughout *E.I.C.*, but the core of the opportunism assumption is reconfirmed time and again (see Box 1 for examples).

Box 1
Williamson on Opportunism

Qualifying the assumption of opportunism is necessary, as:

- 'treatment of the ramifications of dignity for economic organization is sorely needed' (p. 44: note 3);
- 'individual and personal trust relations evolve' at the interface between supplier and buyer (p. 62);
- '[w]here personal integrity is believed to be operative, individuals [. . .] may refuse to be part of opportunistic efforts' (p. 62);
- 'transactions do enjoy the added safeguard of personal honor and integrity of the individuals who negotiate the terms' (p. 63: note 22);
- 'the spirit in which adaptations are effected is [. . .] important' (p. 76);
- '[a s]imple regard for human dignity' is important (p. 151);
- '[a] sense that management and workers are "in this together"' further the purpose of effective adaptation (p. 247);
- 'suspicions and precautions can be and sometimes are taken to excess' (p. 388);
- opportunism is a narrow prescription, '[i]t makes little provision for attributes such as kindness, sympathy, solidarity, and the like' (p. 391);
- 'the importance of deepening our knowledge of economic organization in dignitary respects is enormous' (p. 405);
- 'transaction cost economics must be placed in perspective, lest it become dehumanizing' (p. 405);
- 'calculativeness can get in the way of trust' (p. 405).

However:

- '[o]pportunism is a subtle and pervasive condition of human nature with which the study of economic organization must be actively concerned' (p. 6);
- '[g]overnance structures that attenuate opportunism [. . .] are evidently needed' (p. 63);
- organizational forms which are based on non-opportunistic principles are 'rendered [. . .] nonviable by the intrusion of unscreened and unpenalized opportunists' (p. 65);
- the bounded rationality/opportunism view 'accords with reality' (p. 67);
- although 'blatant opportunism may be rare, it nevertheless illustrates the problems that arise

when trading parties possessing the behavioral attributes of human nature as we know it are joined' (p. 30);
- assuming that communitarian values play a role is 'unneeded and unhelpful' (p. 166);
- 'a healthy regard for opportunism is essential to an understanding of the purposes served by complex modes of economic organization' (p. 388);
- 'much of the success of economics *in relation to* the other social sciences occurs because calculativeness is presumed to be present in nontrivial degree' (p. 391);
- '[t]his unattractive view of human nature [. . .] generates numerous refutable implications' (p. 392).

Note Page numbers refer to Williamson (1985).

Williamson states explicitly that adopting this assumption does not mean that all parties are assumed to be opportunistic in the same degree. '[S]ome individuals are opportunistic some of the time, and [. . .] differential trustworthiness is rarely transparent *ex ante*' (Williamson 1985: 64).

Two remedies for opportunism are mentioned: screening and safeguarding. However, screening for opportunism hardly plays a role in *E.I.C.* In fact, the only two allusions to screening in *E.I.C.* I have been able to track down suggest that this remedy is impotent: the possibility of screening for trustworthiness is indicated to be unlikely (Williamson 1985: 58), and organizations based on trust are assumed to be easily invaded by opportunistic agents, presumably because screening is not effective (Williamson 1985: 64–65). TCE is clearly focused on the second remedy: the crafting of opportunism curbing governance structures.

This concentration on safeguards and neglect of screening have the effect of suggesting that the condition of opportunism, notwithstanding Williamson's assertion to the contrary, is pervasive. This effect is strengthened by the way in which departures from opportunism are described. For instance, in explaining Japanese subcontracting practices, Williamson asserts that '[t]he hazards of trading are less severe in Japan than in the United States because of cultural and institutional checks on opportunism' (Williamson 1985: 122).[4] Here we are far removed from Rousseau's assertion that evil is exterior to nature (Derrida 1977: 145). On the contrary, opportunism forms the invariant core of economic actors; trustworthiness is a supplement that varies from country to country, depending on culture and institutions.

The assumption of opportunism is defended by comparing TCE to at least equally unrealistic approaches that are based on the complete absence of opportunism. These 'utopian' modes of organization can be easily dismissed (Williamson 1985: 50–52), but a true test of TCE would consist in a confrontation with a theory comprising more differentiated assumptions concerning human nature, rather than utopian theory (Noorderhaven 1993, 1994b). As it is, with opportunism kept free from the impurities of alternative motivational bases, one cannot help wondering how governance structures are to keep in check the obdurate inhabitants of TCE.

Opportunism and Governance

Inspection of the discussion of the comparative advantages and disadvantages of unified governance and market (or bilateral) governance in *E.I.C.* is instructive. Two kinds of differences between both governance structures can be distinguished: differences in incentives and differences in the monitoring, controlling and auditing apparatus (Williamson 1985: 154–155).

An independent party, being a residual claimant, has strong incentives to make the most out of a deal. This has positive consequences, as independent parties will try to work as hard and efficiently as possible. If, however, the condition of asset specificity applies, strong incentives also lead to the opportunistic seeking of quasi-rents as defined by Klein et al. (1978). As a result, the party who has incurred investments in transaction specific assets is put under pressure. Under unified governance, economic actors, assuming that they work for a fixed salary, are under a regime of weak incentives. This attenuates the proclivity for opportunistic haggling over transaction specific assets, but also weakens the drive for efficiency.

Unified governance allows parties to make decisions sequentially during the consummation of the transaction, rather than trying to fix everything in a complex contract *ex ante*. Thus, economizing on bounded rationality is possible. How, though, is unified governance assumed to check opportunism? For one thing, costly haggling is avoided as decisions are made by fiat (Williamson 1985: 76). The power of fiat is founded on ownership: managers derive their authority from the fiat of their superiors and ultimately from that of the board of directors and stockholders. Within wide limits this right of fiat remains unquestioned: legal courts deem internal decisions to lie outside their jurisdiction (Williamson 1985: 154n).[5]

Furthermore, unified governance has superior auditing features. Whereas auditing across ownership boundaries is severely hindered by obfuscation and cover-up, internal auditing is assumed to meet with greater cooperation, because organization members have an interest in maintaining the integrity of the organization. 'If, therefore, heads must roll in an integrated division where cost excesses have become great, and if guilty and innocent in these circumstances go down together, then it is easy to understand how those who are not implicated in malfeasance will collaborate early and actively with internal auditors' (Williamson 1985: 155).

In the final analysis, all differences between unified and market/bilateral governance can be reduced to differences in incentive features. The power of fiat ultimately resides in the fact that an employee within a certain 'zone of acceptance' is indifferent to the exact content of the work to which he or she will be assigned (Williamson 1985: 218). In turn, this indifference is based on the fact that an employee has contracted for a fixed salary and therefore faces what Williamson calls 'weak incentives'.[6] As was seen before, the effectiveness of internal auditing depends on the fact that actors are confronted with different incentives in the case of internal audits compared with those of external audits (see also Williamson 1985: 248–250).[7]

Thus the quintessence of the switch from market governance to unified governance is that of substituting 'weak incentives' for 'strong incentives', although 'weak' and 'strong' are deceptive adjectives in this context. An employee of an organization faces weak incentives to haggle about specialized assets, but strong incentives to 'shirk' or 'consume on the job'. In other words, unified governance reduces the risk of opportunistic rent-seeking, but at the price of introducing larger opportunities for shirking.

It is interesting to disentangle the convolutions of the argumentation with respect to this trade-off in *E.I.C.* In Chapter 3, the superiority of unified governance for recurrent transactions at high levels of asset specificity is postulated. For a discussion of the reasons underlying this allegation, Williamson refers to Chapter 4. In Chapter 4, however, we read: '[I]nternal organization has access to distinctive governance instruments. The differences between market and internal organization in incentive and control respects are developed in Chapter 6. For my purpose here, I take these as given' (Williamson 1985: 90). Chapter 6, however, does not focus on the advantages of unified governance, but rather on the limitations of internal organization. Where one expects to learn why transactions are sometimes transferred out of the market and into a firm, Williamson sets out to explain why not *every* transaction is internalized. A number of problems of internal organization are discussed: the meddlesomeness of managers, the use of the resources of the organization to pursue subgoals, exploitation of the firm by minimal performance, politicization of decision making, reciprocal managerial back-scratching, reluctance of managers to abolish their own jobs, etc. (Williamson 1985: 148–153).[8]

Only after having discussed all these problems does Williamson reverse the question, and ask: 'why can't the market replicate the firm?' (Williamson 1985: 154). Subsequently, the two advantages of internal organization mentioned above are put forward: weaker incentives for opportunistic rent-seeking and stronger auditing abilities (Williamson 1985: 154–155). The very conciseness of the discussion of the advantages of internal organization creates the impression that within the TCE framework it is far more difficult to explain how unified governance attenuates opportunism, than to explain how opportunism undermines unified governance.

In some instances, particularities in the presentation of the argument have the effect of concealing this TCE predicament. Thus, all the problems of unified governance stemming from opportunism of agents (workers versus lower managers, lower managers versus higher managers, higher managers versus the board of directors) are discussed in Chapter 6 (pp. 131–162). Only much later, in Chapter 12 (pp. 298–

325), is the complementary issue of opportunism of principals (lower managers versus workers, higher managers versus lower managers) dealt with. Together, these two discussions evoke an image of internal organization as a kind of Hobbesian war of all against all, a picture which devastates the plausibility of the effectiveness of unified governance, but is obscured if both chapters are read with a considerable time interval. This kind of dispersion is one of the phenomena which deconstruction warns against (Bennington and Derrida 1991: 71).

Another example is the assertion that '[t]he main benefits of vertical integration (. . .) are discerned by examining the problems attending autonomous contracting when the parties to a trade are operating in a bilateral exchange relation. The main costs of vertical integration are more difficult to discover, however' (Williamson 1985: 153). The first remark suggests that the weak points of market governance are, by implication, the strong points of internal organization. This is, however, what we would expect the text to substantiate. The second remark closes the discussion of the advantages of internal organization, and points at the problem of assessing the disadvantages. This assessment is said to be impeded by the 'underdeveloped state of the bureaucratic failure literature' (Williamson 1985: 153, 392). In this fashion, although the *dis*advantages of internal organization have been discussed in much more detail than the advantages of internal organization, the alleged underdevelopment of the 'bureaucratic failure literature' is suggested to be responsible for any shortfalls of this discussion.

These textual movements give the impression of a theory oscillating between market and organization, neither of which can plausibly be argued to offer 'a safe haven for specific assets' (Williamson 1985: 248) against the relentless opportunism of 'contractual man'.

Governance and Trustworthiness

In the context of the discussions of the organization of work and the organization of labour (*E.I.C.*: Chapts. 9, 10), Williamson at last introduces two arguments that are to make plausible the superiority of unified governance in curbing opportunism: 'atmosphere' and 'consummate cooperation'.

'Atmosphere' is a concept introduced in an earlier work by Williamson (Williamson 1975). The concept implies that organizational modes may not only differ with respect to efficiency, but may also engender differences in attitudes. For instance, workers who are closely monitored may respond by displaying a narrow focus on the *quid pro quo*, while workers who are given more leeway may display a less calculative attitude (Williamson 1975: 79). In *E.I.C.*, the concept is evoked without repeating this discussion. Loose allusions to the 'sense that managers and workers are "in this together"' and the benefits of 'employee loyalty' (Williamson 1985: 247) can be associated with 'atmosphere', but this connection is not made explicit.

The discussion of 'consummate cooperation' is more elaborate. This concept is opposed to that of 'perfunctory cooperation':

> 'Consummate cooperation is an affirmative job attitude whereby gaps are filled, initiative is taken, and judgement is exercised in an instrumental way. Perfunctory cooperation involves working to rules and in other respects performing in a minimally acceptable way.' (Williamson 1985: 262–263)

It is not difficult to imagine the differential impact of consummate and perfunctory cooperation on the efficiency of unified governance. However, a theory building on an assumption of opportunism cannot invoke consummate cooperation to explain the functioning of internal organization. To be sure, opportunistic actors *will* fill gaps, take initiative, and exercise judgement, but in ways that undermine the viability of unified governance rather than enhance its efficiency.

This, then, appears to be the argumentational structure of TCE: first the condition of opportunism is stressed in order to posit the problem of economic organization; subsequently, it is argued that under certain circumstances market governance is unable to safeguard transactions against the hazards of opportunism, hence a shift to unified governance is assumed to occur; then the shortfalls of unified governance (again stemming from opportunism) are discussed, in order to explain why firms do not replace markets altogether. The superiority of unified governance in curbing opportunism is hardly elaborated, but the few arguments that are put forth amount to a contamination of the purity of opportunism.[9] Thus Williamson 'accumulates contradictory arguments to bring about a satisfactory decision' — to use the phrase employed by Derrida in a discussion of Rousseau's work (Derrida 1977: 45). The central aporia of TCE is that for its logic to apply it is necessary to stress that actors are opportunistic, but this same relentless opportunism undermines the very structures that are assumed to check it.[10]

Extension, Comparison, and Conclusions

Extending the Analysis

The deconstruction in this article has been confined to one particular text from the school of thought of transaction cost economics. The argument can be extended to other texts, and to other branches of organizational economics, however. One example of an extension to another branch of organizational economics will be given. In agency theory the opportunism of agents is assumed to be curbed by well-designed contracts. The theory fails, however, to give a satisfactory account of how these contracts are enforced. In fact, with the formulation of the contract, the agency problem is considered to be solved. This means that opportunism is effectively suspended as far as the rule of the contract is concerned, and not without reason, for as I have demonstrated elsewhere, agency theory is in dire straits if it has to explain contract enforcement (Noorderhaven 1992). Thus, in this branch of organizational economics, the assumption of opportunism also needs some implicit dilution.

As far as the extension to other texts in the school of thought of TCE is concerned, two recent papers of Williamson merit attention. In one of these, Williamson focuses explicitly on the assumption of opportunism (Williamson 1993a). The position of TCE with regard to this assumption is elaborated in a way consistent with the account given in this article. Thus, Williamson stresses that the assumption does not imply that 'most economic agents are engaged in opportunistic practices most of the time', but a theory of economic organization must reckon with 'the need to protect a (well-socialized) majority against the predatory tendencies of a determined minority' (Williamson 1993a: 98). Although these formulations suggest that opportunism as well as trustworthiness are facts of life, and that opportunism is the exception rather than the rule, later in the paper Williamson also states that the condition of opportunism is 'familiar and pervasive', and that candidly facing opportunism implies that the problem of economic organization is addressed in 'more veridical terms'. In short, the same kind of arguments to be found in *E.I.C.* are reiterated, without adding important new insights.

More interesting from the point of view of this article is another paper by Williamson, focusing on calculativeness and trust (Williamson 1993b). This paper is composed around two parallel oppositions: calculativeness versus trust, and commercial exchange versus personal relations. Commercial exchange is seen as governed by calculativeness, hence in this sphere opportunism must be taken into account and the concept of trust is misleading, for '[c]alculative trust is a contradiction in terms' (Williamson 1993b: 463). On the other hand, some personal relations are characterized by an almost complete absence of calculativeness. In the context of such relationships the concept of trust bears meaning (Williamson 1993b: 484):

> 'trust, if it obtains at all, is reserved for very special relations between family, friends, and lovers. Such trust is also the stuff of which tragedy is made. It goes to the essence of the human condition.'

We may note in passing that the dichotomy proposed by Williamson implies that the 'essence of the human condition' has no bearing on a large category of behaviour, viz. commercial exchange. Given the scope and the ambition of TCE, this exclusion is surprising.

More important in the light of the analysis of *E.I.C.* contained in this article is the observation that the purity of the opposites of calculativeness and trust, as discussed by Williamson, is contaminated. On the one hand, calculativeness permeates personal relations. In Williamson's view, the decision to suppress calculativeness in the context of a given relationship is itself calculative. Consequently, 'the true absence of calculativeness is rare if not nonexistent', and personal trust can only be described as 'nearly noncalculative' (Williamson 1993b: 479). On the other hand, the commercial relations that purportedly are purely calculative also crucially depend on forms of noncalculativeness. This can be deduced from Williamson's discussion of contracting in a cultural environment that 'condones lying and hypocrisy'. In such a setting 'court enforcement is problematic — since bribery is widespread' (Williamson 1993b: 476–477). Turning this statement around, we may deduce that the efficacy of court enforcement in some way depends on the existence of limits to calculativeness, e.g. in the form of judges who do *not* 'have their price'. The contamination of pure opportunism found in *E.I.C.* appears to be no mere accidental slip of the pen, but a symptom of genuine problems within TCE.

Comparison with Other Criticisms of TCE

A criticism of the assumption of opportunism as maintained by TCE has a central position in the analysis contained in this paper. This assumption has been subject to criticism before. Three of these criticisms, specifically geared to the internal consistency of TCE, will be discussed shortly and compared with the position taken in this article.

One of the main criticisms of organizational economics levelled by Perrow (1986: 232) is that self-interest should be treated as a variable, rather than a fixed property. This criticism applies *a fortiori* to opportunism,which, after all, is a particularly virulent form of self-regarding behaviour. Perrow goes on with a provisional specification of the conditions favouring self-regarding behaviour (and, by implication, of the conditions favouring other-regarding behaviour). Perrow also points out that settling disputes by fiat (as in a hierarchy) is difficult 'because of the very things Williamson has made us aware of — asset specificity and small-numbers bargaining *within* the firm' (Perrow 1986: 246, emphasis in the original). Thus Perrow's discussion of TCE foreshadows important elements of this paper.

Dow (1987) points out that authority, or hierarchical organization, is seen mainly as a remedy for opportunism in TCE. According to this author TCE tends to disregard the fact that authority relations generate conditions under which opportunism is likely to be encouraged, viz. information impactedness, small numbers, and the availability of a tool (decision by fiat) for the unilateral pursuit of self-interest (Dow 1987: 21). As we have seen, this one-sidedness in the analysis of hierarchy has been adjusted in *E.I.C.*,[11] but because of Williamson's unwillingness to dilute the assumption of opportunism (as suggested by Perrow), this accommodation leads to contradictions.

Granovetter (1985), finally, makes an observation not incomparable to that lying at the heart of this paper. Granovetter compares Williamson's picture of the market with Hobbes' state of nature, and Williamson's hierarchy with Hobbes' sovereign state with a central autocratic authority. Thus, TCE seems to alternate between an undersocialized and an oversocialized view of man in describing market and hierarchy, respectively. The analysis of *E.I.C.* (a text Granovetter could not have at his disposal when writing his essay), however, suggests that this is not quite the position of TCE. TCE ostensively holds to the assumption of opportunism, even in explaining unified governance (witness the vivid description of the hazards of internal organization). However, small but essential impurities to the principle of opportunism are introduced in passing.

What this paper adds to earlier criticism of TCE is that it points out how the traces of the tensions and contradictions identified by the authors mentioned above (and others) can be found in a central text within TCE itself. The paradoxes engendered by the construction of a hierarchical opposition between opportunism and trustworthiness can indeed not be escaped, but only repressed.

Conclusions

What should be the conclusion drawn from the deconstruction of TCE? It is emphatically *not* that the notion of opportunism should be discarded, and that we should embrace assumptions opposite to those of TCE, like McGregor's 'Theory Y' or Donaldson and Davis' 'Stewardship Theory' (Donaldson 1990a; McGregor 1960).[12] The development of organization theory is not well served by a swing from one extreme to the other (Perrow's 1973 analysis of the forces of darkness and light in the history of organization theory is apposite).

One subordinate conclusion has to be mentioned first. Organizational economists have, in the past, strongly criticized received behavioural organization theory. Williamson, for instance, deplored the 'underdeveloped' and 'primitive' state of received theories of bureaucracy (Williamson 1985: 153, 392).[13] Jensen (1983) stated that organization theory was still in its infancy, and predicted a revolution in this field when economists took the matter in hand. More recently, Williamson proclaimed that organization theory would not be accorded co-equal status with economics in the 'New Science of Organization' (Williamson 1993c: 184). The analysis in this article suggests that the state of affairs in organizational economics justifies no complacency, and that the balance between criticism and appreciation of received behavioural organization theory should be restored.

The major conclusion to be drawn from the deconstruction contained in this text is, in my view, that the limitations of the kind of rigid deduction from stark assumptions as employed by TCE should be kept in mind. Certain aspects of the phenomenon of economic organization are elucidated (some of which, perhaps, have been neglected by received behavioural organization theory), but at the price of leaving other aspects in the dark. The unremitting hammering away at opportunism by organizational economics has put the question why organization members obey rules and acquiesce in hierarchical authority on the agenda. Now the time has come for a well-considered dilution of the assumption of opportunism, in order to make headway in improving the descriptive validity of the theory.

As the preceding discussion has shown, a concept derives its meaning from other concepts from which it can be distinguished. This is also true of opportunism: opportunism is the absence of trustworthiness. However, if opportunism is to be defined as an absence of trustworthiness, the existence of trustworthiness is presupposed. A theory of organization, then, could profitably take the existence of opportunism *and* trustworthiness as an explicit point of departure.

One task would be to explain how differences in opportunism affect economic organization. This would entail theories of screening and selection, and of the building of safeguarding structures. In this case, opportunism is seen as an exogenous variable. One possible line of reasoning would then be that the average level of opportunism may be assumed to vary between cultural–institutional settings. Williamson hints at this explanation by alluding to 'low-trust' and 'high-trust' societies (Williamson 1985: 392).

Another task would be to explain how economic organization affects opportunism. In this approach, opportunism enters as an endogenous variable. An example of a study in this vein (although from an entirely different tradition) is Fox's (1974) analysis of vicious low-trust and virtuous high-trust circles in management–labour relations. An important task of organizational analysis would be to identify factors invoking opportunistic and trustworthy behaviour. For example, the characteristics of the process of interaction between the parties could be examined (Noorderhaven 1994b).

Williamson, in conclusion, can be quoted once more with approval: 'a richer theory of economic organization awaits deeper behavioral insights' (Williamson 1985: 392). Much work remains to be done.

* I am grateful to Egidius Berns, Bart Nooteboom, and three anonymous *O.S.* reviewers for valuable comments and criticisms.

1. This discussion is based on Berns (1981, 1990); Culler (1979); Dews (1987); Gasché (1986); Norris (1991); Spivak (1977); and Sturrock (1979).

2. The description of deconstruction given here will doubtlessly be seen by some as a caricature rather than a reasonably adequate summary of Derrida's approach. As a matter of fact, given Derrida's apodeictic statement that 'all sentences of the type "deconstruction is X" (. . .) *a priori* miss the point' (quoted in Lehman 1991: 23), this kind of criticism is unavoidable, and it has been raised against every attempt to 'tame' deconstruction (Ellis 1989: 10).

3. Deconstructions such as this could be based on the epistemological criticism of TCE contained in Nooteboom (1992). The statement on page 38 of *E.I.C.* could be taken as a point of departure: 'I consistently assume that the parties to a contract are hard-headed and that the ramifications of alternative contracts are intuited if not fully thought through.' This effectively does away with bounded rationality.

4. See also Williamson (1993b: 476): 'The main import of culture, for purposes of economic organization, is that it serves as a check on opportunism'.

5. In Williamson (1991), this aspect of unified governance is worked out more systematically in the discussion of the concept of 'forbearance'.
6. An employee also has a more limited scope for opportunistic behaviour, as he or she cannot as easily exit while maintaining the fruits of his opportunism as an independent party (Williamson 1985: 155). At an earlier stage of the analysis, though, Williamson consistently abstracted from 'the special hazards posed by fly-by-night firms' (Williamson 1985: 72). Therefore the argument, used at this place, appears to be somewhat *ad hoc*.
7. In principle autonomous trading partners could write a contract introducing the same auditing procedures normally found within firms. Because the incentives differ, however, these procedures are less efficient if applied across the boundaries of firms: 'market and internal organization differ in ''informal organization'' respects' (Williamson 1985: 154).
8. To this could be added influence activities performed by organization members in order to influence decision makers, see Milgrom and Roberts (1988).
9. A comparison with the 'impurity principle' formulated by Hodgson (1988: 167–171, 254–262) is apposite but falls outside the scope of this paper.
10. 'Aporia', deriving from the Greek word meaning 'unpassable path', is a concept from traditional rhetoric, denoting a self-engendered paradox (Norris 1991: 49). The concept is used frequently by Derrida. 'What deconstruction persistently reveals is an ultimate impasse of thought engendered by a rhetoric that always insinuates its own textual workings into the truth claims of philosophy' (ibidem).
11. Dow only occasionally refers to *E.I.C.* The book appeared during the final revision of his paper, and it apparently has not changed his general view of TCE.
12. The example of 'Stewardship Theory' was suggested by an anonymous *O.S.* reviewer.
13. In all fairness, Wlliamson also says that 'economics should both speak and listen to organization theory' (Williamson 1985: 402).

References

Barney, Jay B.
1990 'The debate between traditional management theory and organizational economics: Substantive differences or intergroup conflict?'. *Academy of Management Review* 15: 382–393.

Bennington, Geoffrey, and Jacques Derrida
1991 *Jacques Derrida.* Paris: Editions du Seuil.

Berns, Egidius
1981 'Jaques Derrida en de Taalfilosofie' [Jacques Derrida and the philosophy of language] in *Denken in Parijs; Taal en Lacan, Foucault, Althusser, Derrida*, 2nd ed. E. Berns et al. (eds.), 139–169. Alphen aan den Rijn: Samson.

Berns, Egidius
1990 'Derrida's Huishouding' [Derrida's economy]. *Algemeen Nederlands Tijdschrift voor Wijsbegeerte* 82: 269–281.

Burrell, Gibson
1988 'Modernism, post modernism and organisational analysis 2: The contribution of Michel Foucault'. *Organization Studies* 9/2: 221–335.

Calás, Marta B., and Linda Smircich
1991 'Voicing seduction to silence leadership'. *Organization Studies* 12/4: 567–602.

Cooper, Robert
1989 'Modernism, post modernism and organisational analysis 3: The Contribution of Jacques Derrida'. *Organization Studies* 10/3: 479–502.

Cooper, Robert, and Gibson Burrell
1988 'Modernism, post modernism and organisational analysis: An introduction'. *Organization Studies* 9/1: 91–112.

Culler, Jonathan
1979 'Jacques Derrida' in *Structuralism and since. From Lévi-Strauss to Derrida.* John Sturrock (ed.), 154–180. Oxford: Oxford University Press.

Derrida, Jacques
1977 *Of grammatology.* Trans. by Gayatri Spivak. Baltimore: Johns Hopkins University Press.

Derrida, Jacques
1978 *Writing and difference.* Trans. by Alan Bass. Chicago: University of Chicago Press.

Derrida, Jacques
1983 *Dissemination.* Trans. by Barbara Johnson. Chicago: University of Chicago Press.

Dews, Peter
1987 *Logics of disintegration; post-structuralist thought and the claims of critical theory.* London: Verso.

Donaldson, Lex
1990a 'The ethereal hand: Organizational economics and management theory'. *Academy of Management Review* 15: 369–381.

Donaldson, Lex
1990b 'A rational basis for criticisms of organizational economics: A reply to Barney. *Academy of Management Review* 15: 394–401.

Dow, Gregory K.
1987 'The function of authority in transaction cost economics'. *Journal of Economic Behavior and Organization* 8: 13–38.

Ellis, John M.
1989 *Against deconstruction.* Princeton, NJ: Princeton University Press.

Fox, Allan
1974 *Beyond contract: Work, power, and trust relations.* London: Faber and Faber.

Gasché, Rodolphe
1986 *The tain of the mirror; Derrida and the philosophy of reflection.* Cambridge, MA: Harvard University Press.

Granovetter, Marc
1985 'Economic action and social structure: The problem of embeddedness'. *American Journal of Sociology* 91: 481–510.

Griesinger, Donald W.
1990 'The human side of economic organization'. *Academy of Management Review* 15: 478–499.

Hesterly, William S., Julia Liebeskind, and Todd R. Zenger
1990 'Organizational economics: An impending revolution in organization theory?'. *Academy of Management Review* 15: 402–420.

Hodgson, Geoffrey M.
1988 *Economics and institutions.* Cambridge: Polity Press.

Jensen, Michael C.
1983 Organization theory and methodology. *The Accounting Review* 58: 319–349.

Joskow, Paul L.
1988 'Asset specificity and the structure of vertical relationships: Empirical evidence'. *Journal of Law, Economics and Organization* 4: 95–117.

Kilduff, Martin
1993 'Deconstructing organizations'. *Academy of Management Review* 18: 13–31.

Klein, Benjamin, Robert G. Crawford, and Armen A. Alchian
1978 'Vertical integration, appropriable rents, and the competitive contracting process'. *Journal of Law and Economics* 21: 297–326.

Lehman, David
1991 *Signs of the time; Deconstruction and the fall of Paul de Man.* New York: Poseidon Press.

Martin, Joanne
1990 'Deconstructing organizational taboos: The suppression of gender conflict in organizations'. *Organization Science* 1: 339–359.

McGregor, Douglas
1960 *The human side of enterprise.* New York: McGraw-Hill.

Milgrom, Paul, and John Roberts
1988 'An economic approach to influence activities in organizations'. *American Journal of Sociology* 94 (Supplement): 154–179.

Mumby, Dennis K., and Linda L. Putnam
1992 '"Bounded rationality" and organizing: A feminist critique'. *Academy of Management Review* 17: 465–486.

Noorderhaven, Niels G.
1992 'The problem of contract enforcement in economic organization theory'. *Organization Studies* 13/1: 229–243.

Noorderhaven, Niels G.
1993 'Trust and Transactions; Transaction Cost Analysis with a Differential Behavioral Assumption'. Research Report, Tilburg University.

Noorderhaven, Niels G.
1994a 'Transaction cost analysis and the explanation of hybrid vertical inter-firm relations'. *Review of Political Economy* 6: 19–36.

Noorderhaven, Niels G.
1994b 'Opportunism and Trust in Transaction Cost Economics'. Paper for the workshop 'TCE and Beyond', Erasmus University Rotterdam, June 6–7.

Nooteboom, Bart
1992 'Towards a dynamic view of transactions'. *Journal of Evolutionary Economics* 2: 281–299.

Norris, Christopher
1991 *Deconstruction; theory and practice*, Revised ed. London: Routledge.

Parker, Martin
1992 'Post-modern organizations or postmodern organization theory?'. *Organization Studies* 13/1: 1–17.

Perrow, Charles
1973 'The short and glorious history of organizational theory'. *Organizational Dynamics* (Summer): 2–15.

Perrow, Charles
1981 'Markets, hierarchies, and hegemony: A critique of Chandler and Williamson' in *Perspectives on organization design and behavior*. Andrew van de Ven and William Joyce (eds.), 371–386. New York: Wiley.

Perrow, Charles
1986 *Complex organizations*, 3rd ed. New York: Random House.

Spivak, Gayatri Ch.
1977 'Translator's Preface' in *Of grammatology*. Jacques Derrida, ix–lxxxvii. Baltimore: Johns Hopkins University Press.

Sturrock, John
1979 'Introduction' in *Structuralism and since. From Lévi-Strauss to Derrida*. John Sturrock (ed.), 1–18. Oxford: Oxford University Press.

Vasterling, Veronica
1987 'Jacques Derrida' in *Hedendaagse Franse Filosofen*. P. L. Assoun (ed.), 207–223. Assen: Van Gorcum.

Williamson, Oliver E.
1975 *Markets and hierarchies; Analysis and antitrust implications*. New York: Free Press.

Williamson, Oliver E.
1979 'Transaction cost economics: The governance of contractual relations'. *Journal of Law and Economics* 22: 3–61.

Williamson, Oliver E.
1985 *The economic institutions of capitalism*. New York: Free Press.

Williamson, Oliver E.
1988a 'The economics and sociology of organization: Promoting a dialogue' in *Industries, firms, and jobs*. George Farkas and Paula England (eds.), 159–185. New York: Plenum.

Williamson, Oliver E.
1988b 'The logic of economic organization'. *Journal of Law, Economics and Organization* 4: 65–93.

Williamson, Oliver E.
1991 'Comparative economic organization: The analysis of discrete structural alternatives'. *Administrative Science Quarterly* 36: 269–296.

Williamson, Oliver E.
1992 Markets, hierarchies, and the modern corporation; An unfolding perspective'. *Journal of Economic Behavior and Organization* 17: 335–352.

Williamson, O. E.
1993a 'Opportunism and its critics. *Managerial and Decision Economics* 14: 97–107.

Williamson, Oliver E.
1993b 'Calculativeness, trust, and economic organization'. *Journal of Law and Economics* 36: 453–486.

Williamson, Oliver E.
1993c 'Economic institutions: Spontaneous and intentional governance'. *Journal of Law, Economics, and Organization* 7 (special issue): 159–187.

Williamson, Oliver E., and William G. Ouchi
1981a 'The markets and hierarchies program of research: Origins, implications, prospects' in *Perspectives on organization design and behavior*. Andrew van de Ven and William Joyce (eds.), 347–370. New York: Wiley.

Williamson, Oliver E., and William G. Ouchi
1981b 'A Rejoinder' in *Perspectives on organization design and behavior*. Andrew van de Ven and William Joyce (eds.), 387–390. New York: Wiley.